

JEWEL TEA CO., INC.

JEWEL PARK

BARRINGTON, ILL.

Annual Report, 1942

Directors

HENRY S. BOWERS

A. VERNON JANNOTTA

F. J. LUNDING

JOHN M. HANCOCK

M. H. KARKER

WALTER E. SACHS

A. U. HUNT

C. W. KAYLOR

ROBERT R. UPDEGRAFF

Officers

M. H. KARKER, *Chairman of the Board of Directors*

JOHN M. HANCOCK, *Chairman of the Executive Committee*

F. J. LUNDING, *President*

G. L. CLEMENTS, *Exec. Vice Pres.—Stores*

J. M. O'CONNOR, *Vice Pres.—Imports*

H. W. DOTTS, *Vice Pres.—Routes*

J. M. FRIEDLANDER, *Treasurer*

ROBERT HILTON, *Vice Pres.—Routes*

A. U. HUNT, *Controller*

C. A. LARSON, *Vice Pres.—Stores*

E. E. HARGRAVE, *Secretary*

M. S. MORSE, *Vice Pres.—Stores*

R. D. STURTEVANT, *Asst. Secretary*

Transfer Agent

MANUFACTURERS TRUST COMPANY
55 Broad Street, New York City

Registrar

THE COMMERCIAL NATIONAL BANK
AND TRUST COMPANY OF NEW YORK
56 Wall Street, New York City

Auditors

TOUCHE, NIVEN & CO.
Certified Public Accountants
New York and Chicago

*Notice of Annual Meeting of Stockholders, Proxy and Proxy
Statement will be mailed on or about February 15, 1943,
to common stockholders of record as of February 8, 1943.*

JEWEL TEA CO., INC.

JEWEL PARK
BARRINGTON, ILL.

February 11, 1943

TO STOCKHOLDERS, JEWEL PEOPLE, AND THE PUBLIC:

It has been our custom to report to the owners of the business, and Jewel people, on the results of the year's work as soon as possible following the completion of the audit by the public accountants. During the past year the primary interest of each of us has been the successful prosecution of the war, so it seems appropriate to report on the manner in which Jewel has discharged its obligations not only to its owners and its people, but also to our country.

THE COMPANY

Jewel is primarily engaged in the retail distribution of food products and other items of personal and household use. It also carries on substantial importing and manufacturing activities.

Its general offices and its principal manufacturing plants are located in Barrington, Illinois. A smaller plant is located in Los Angeles, California, and an importing and buying office is maintained in New York City.

Two different methods of retail distribution are used, each being handled by a separate department of the business. The Routes Department operates through 1591 salespeople who call on regular customers in their homes. The Food Stores Department operates 154 grocery stores, all but one of which have meat markets.

The Routes Department is managed directly from our Barrington offices. Branch offices and in most instances warehouse facilities are, however, maintained in 83 cities throughout the country. Salespeople from these branches call once each two weeks on our customers in 42 states and the District of Columbia.

The Food Stores Department maintains offices and two warehouses in Chicago. All 154 stores are located in Chicago and its suburbs; these stores are self-service units of medium size. A small percentage of the products sold in the stores is manufactured by the company in its Barrington plant.

THE COMPANY AND THE WAR

Food is a weapon of war on the fighting front and on the home front. The preparation and distribution of food is an essential industry in war as in peace. Jewel people in their daily jobs in our offices, branches, plants, and warehouses, on our routes, and in our stores are serving on the home front for health defense.

In the way of direct war work we have been engaged on a modest scale since last September in packing rations for the army. This project has included considerable experimental work in cooperation with the Quartermaster Corps. In addition, we have leased two floors of one Chicago warehouse to the government for storage purposes. At the present time all available plant and warehouse space is fully utilized.

Jewel men and women in the uniformed services of our country totaled 502 at the year end. We report with deep regret that our company service flag now includes four gold stars.

In June 1941 we initiated a program of hiring and training women to replace men entering the armed services and war work. This early effort and experience has proved invaluable. Women are now carrying on successfully in more than one-third of all Jewel jobs.

Our promotion and sale of war savings stamps both in our stores and on our routes brought us a citation from the Treasury in November 1942. At the year end the company's own security portfolio was 80% invested in U. S. Government obligations, a total of \$3,551,078. Our federal income taxes, based on 1942 income, totaled \$1,108,007, enough to buy approximately 6,000 depth bombs, over 3,000 sub-machine guns, or 22 pursuit planes.

We have cooperated fully with war agency publicity efforts through allotment of substantial space in our advertising and in our own publications and through special signs and displays. These campaigns have included tin conservation, paper conservation, grease collection, rubber conservation, scrap collection, and stamp and bond sales.

Mr. M. H. Karker, Chairman of our Board, is now with the War Department in Washington, D. C., as Chairman of the Price Adjustment Board. Other Jewel people have contributed time and effort to government agencies in advisory capacities and in other ways.

SALES—RATIONING—PRICES

Sales in 1942 totaled \$53,257,811, the highest point in the history of the business and 27.7% above 1941. Full credit for this accomplishment in the face of shortages among some of our most important items must go to our people and our suppliers.

New branches opened in Massachusetts, Mississippi, Oregon, and Washington by the Routes Department in 1941 were closed during the year because their development could not be completed due to the war. Including part of the routes operated by these branches, 84 routes were closed out or consolidated in 1942. In the Stores Department 7 stores and 11 meat markets were opened. At the year end, 1591 routes and 154 stores were in operation.

Due to the loss of important sources of supply, as with tea, or to shipping difficulties, as in the case of coffee, most imported items were short during the year. Many domestic products were also short because of increased demand resulting from greater purchasing power, the requirements of our armed forces, and government buying for lease-lend. The shortage of tin has affected supplies of all canned items.

Both sugar and coffee are now rationed. The rationing of coffee has been particularly important to us because our major plant operation has been the processing and packaging of coffee, and coffee has been the largest selling single item on our routes; coffee accounted for 39% of route sales volume in 1941. While rationing has necessitated some operating adjustments and has restricted sales, we expect to continue to obtain our share of the nation's coffee volume.

The OPA has announced that canned fruits and vegetables will be rationed under point rationing in 1943. Point rationing is being studied in order that it may be introduced in our stores with a minimum of confusion and inconvenience to our customers. No route items were included in the list of products originally announced for point rationing.

It is expected that rationing will be extended to additional food items during 1943. While rationing is accompanied by some slowing up of our service to the public and some increase in our bookkeeping work and operating expense, this is more than offset

by the fact that in the best interests of everyone, available supplies of rationed items must be distributed in an orderly and equitable manner.

The food industry has both an obligation and an opportunity under today's conditions. The nation's health and energy must be maintained in the face of food shortages and rationing. Proper nourishment is more important than ever. The food industry must discover, develop, and offer for sale new items, satisfactory substitutes, and "stretchers," products which make available supplies go further.

During 1942 our food stores discontinued 251 items, practically all war casualties. At the same time, 229 new items were located and introduced. Important to nutrition is the promotion of fresh fruits and vegetables, now a major program in our stores.

A number of new items have been introduced on our routes. Two of these are particularly important. A vitamin capsule containing daily requirements of essential vitamins and minerals was introduced in 1942. This is an outstanding vitamin capsule packaged 30 to a box, a month's supply. Troxa, a coffee stretcher, was also introduced in 1942. Troxa has been welcomed by our coffee customers; it makes coffee go twice as far. Both these products, vitamins and a coffee stretcher, are also available in our stores.

Retail prices for most items we sell were covered by the price ceiling order issued in May 1942. Since the ceilings set for certain meat products, based on March 1942 prices, worked a particular hardship on our stores, we appealed to OPA for relief. Our petition was carefully studied, and some relief was granted.

Some ceiling prices have been replaced by fixed profit margins. There seems to be a definite trend in that direction. There is also some discussion of fixed maximum dollar and cent retail prices.

EARNINGS—EXPENSES

A comparison of earnings for the past three years is shown below:

	1942	1941	1940
Net sales	\$53,257,811	\$41,702,980	\$29,231,608
Earnings before all taxes.....	3,876,244	3,949,251	3,017,164
Total taxes including federal taxes.....	2,527,596	2,430,380	1,440,169
Taxes per share of common stock*	4.51	4.34	2.57
Net earnings	1,348,648	1,518,871	1,576,994
Preferred stock dividend requirements			
for the year**	210,053	64,340	—
Earned per share of preferred stock.....	27.57	30.38	—
Paid per share of preferred stock.....	4.25	.54	—
Earned per share of common stock*	2.03	2.60	2.82
Paid per share of common stock.....	1.80	2.40	2.40

* 560,000 shares

** 48,925 preferred shares as of January 2, 1943

Preferred dividend requirements of \$210,053 for the year exceeded 1941 by \$145,713 because the preferred stock was outstanding only three and one-half months in 1941. Tax and other relief because of the additional capital made the actual net 1942 cost of the Preferred only \$40,081. In other words, savings resulting from the Preferred in 1942 were only \$40,081 short of being equal to Preferred dividends for the year. The sale of the Preferred has greatly strengthened the company's financial position and its ability to weather today's conditions and unusual demands on working capital.

Net earnings for 1942 were down 11.2% from 1941. Our increase of \$11,554,831 in sales was not sufficient to make up for lower gross margin, increased wage payments, higher operating expenses, and added taxes. Gross margin was reduced by the order setting price ceilings at the highest price charged in March 1942. March retail prices had been set on the basis of average inventory costs which were lower than replacement costs at that time.

Wage payments and operating expenses were higher in total dollars, due partly to added sales volume and partly to increased costs of doing business. These items were, however, a lower percentage of sales than in 1941. Pay scales were adjusted during 1942 to secure greater uniformity so that similar work would receive the same pay throughout the country, to compensate for higher living costs, and to keep our rates of pay in line with a generally rising pay level.

The Revenue Act of 1942 provided for a post-war refund of 10% of the excess profits tax and the portion of 1942 taxes which will be refunded after the war totaled \$25,764. That amount has been deducted from the company's tax bill for the year and is carried in the "Other Assets" section of the balance sheet. After this deduction, federal income and excess profits taxes took 45.1% of the income available to pay these taxes, compared with 42.3% in 1941. The excess profits tax law contains provisions whose exact application to the company will not be definitely known until tax returns are audited and finally settled, but it is believed that adequate reserve has been provided for excess profits taxes.

The increase of 6% in freight rates beginning March 18, 1942, and the federal tax of 3% on freight, effective December 1, 1942, will add approximately \$70,000 per year to the company's cost of transportation. Serious delays in transportation are beginning to show up in a number of sections of the country, and these have necessitated carrying larger inventories and forced some changes in our methods of distribution of goods to branches and routes.

TRUCKS—GASOLINE—TIRES

The government required all operators of commercial vehicles to obtain certificates of war necessity for each piece of equipment, and these certificates were issued for our route trucks. In many cases the weekly mileage allowed was inadequate; appeals for added mileage are being made where it is needed for the efficient operation of the business. In co-operation with the war effort, all routing has been reviewed in an effort to reduce mileage. The co-operation of our route salespeople has made possible concentration of territory, improved routing, and the elimination of certain extra driving. As a result, route mileage during the last weeks of 1942 was at the rate of 6,860 miles per route per year, a reduction of 36% from the year before. This effort continues and further improvement is expected.

In compliance with government orders, we have only 5 tires per car. Under government regulations we are eligible for recapping service to keep our tires and trucks in operation. There is no provision at this time, however, which enables us to receive a new tire when one is damaged and cannot be recapped. Since passenger cars are permitted new Grade III tires under such circumstances, we believe our route equipment should receive similar consideration. One request for an amendment to permit us to purchase Grade III tires when needed and when available was not successful. A further appeal is being made.

Repair parts for our trucks are increasingly difficult to secure. A shortage of repair men is also becoming apparent. Some shops are closed. Others are crowded and repair jobs take more time and tie up our trucks longer. In spite of difficulties, the company's trucks are being maintained in the best possible mechanical condition. Preventive

maintenance and prompt attention to small repairs are emphasized to prevent, so far as possible, major repair problems.

RESERVES

Careful consideration has been given to the need for reserves. The reserve for contingencies and inventory valuation contained \$400,000 at the end of 1941. There has been transferred to this reserve through the income account \$197,513.25 from the reserve for alterations, improvement, development, and advertising. \$52,486.75 out of the amount of \$100,000 set aside at the midyear of 1942 was also added. The remainder of this mid-year provision of \$47,513.25 was returned to earnings. These adjustments resulted in a total reserve of \$650,000 for contingencies and inventory valuation at the 1942 year end.

The reserve for automobile accident and other self-insured losses, which has been built up gradually over the past seventeen years, was increased to \$250,000 in 1942. The cost of automobile accidents was 7% under 1941 and was at the lowest point since 1935. This 1942 accident reduction is particularly encouraging in the light of our need to conserve equipment.

WORKING CAPITAL

The ratio of current assets to current liabilities was 4.46 to 1 on January 2, 1943, and 4.29 to 1 on January 3, 1942. Marketable securities (individually valued at cost or market, whichever was lower) included the following groups of bonds at market quotations on January 2, 1943: federal government obligations \$2,797,735.19 (not including \$753,600.00 of United States Treasury Tax Notes deducted from accrued federal taxes on the balance sheet); state and municipal bonds \$476,555.97; industrial, public utility and other bonds \$390,468.97.

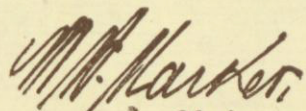
During 1942 life insurance policies in the amount of \$350,000 were cancelled. The cash surrender value of these, amounting to \$99,097, was received from the insurance companies and added to working capital.

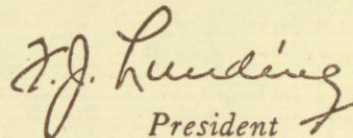
OUTLOOK

We do not know what demands may be made on this company during the year ahead. We cannot predict what additional regulations or restrictions may prove necessary due to the war effort. We do know that we have essential work to do, the maintenance of an important source of food in the areas where we operate. Our objective in this year of war, as always, is to serve the public.

Our confidence in the future is based on the loyal support of our customers, who during 1942 gave Jewel the largest sales in its 44 year history; and on the energy and intelligence, the alertness and resourcefulness displayed during a difficult year by Jewel people.

For the Board of Directors:


Chairman


President

JEWEL TEA

(A NEW YORK

BALANCE SHEET -

ASSETS

Current Assets:

Cash on hand, demand and time deposits.....		\$ 2,181,443.84
Marketable securities at cost or market, whichever is lower, and interest (market quotation \$3,664,760.13).....		3,660,824.22
Accounts receivable:		
Trade customers, less reserve of \$22,062.27 for doubtful accounts.....	\$ 178,741.45	
Miscellaneous, less reserve of \$3,155.67 for doubtful accounts.....	<u>373,388.47</u>	552,129.92
Inventories at cost or market, whichever is lower (includes 15,337 bags of green coffee valued at \$259,512.89 to which title is held by the Commodity Credit Corporation while the coffee is in transit between foreign port of origin and the United States):		
Raw materials	\$1,189,960.20	
Finished groceries	2,930,911.71	
Premiums	<u>703,187.73</u>	4,824,059.64
		<u>\$11,218,457.62</u>

Other Assets:

Loans to employees.....	\$ 7,435.57	
Miscellaneous deposits and contracts (net) less reserve of \$10,000.00.....	22,078.12	
Post-war refund of excess profits tax.....	<u>25,764.54</u>	55,278.23

Jewel Employees Trust Fund Assets:

Investments at cost or market, whichever is lower, and cash (Jewel em- ployees surety deposits, per contra).....		228,453.62
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Deferred Charges:

Premiums (at cost) advanced to customers, less reserve of \$53,475.83 for doubtful accounts	\$ 760,082.95	
Unexpired insurance, expense supplies, etc.....	<u>336,992.50</u>	1,097,075.45

Capital Assets:

(Appraised as of December 31, 1932, when book values were reduced
\$404,537.66 to basis of current values, plus subsequent additions at cost)

Land		\$ 545,850.81
Buildings	\$2,543,938.03	
Machinery, furniture and fixtures, at plants.....	735,199.37	
Branch and store equipment.....	<u>2,823,798.18</u>	
	<u>\$6,102,935.58</u>	
Less reserve for depreciation.....	<u>2,515,565.17</u>	3,587,370.41
		4,133,221.22

Good Will

1.00
\$16,732,487.14

CO., INC.

CORPORATION)

JANUARY 2, 1943

LIABILITIES

Current Liabilities:

Letters of credit and acceptances.....		\$ 54,301.79
Accounts payable		1,160,637.97
Dividends payable		51,982.81
Accrued wages and bonuses.....		306,093.76
Provision for contribution to Jewel Retirement Estates.....		99,531.60
Federal, state and other taxes accrued.....	\$ 1,573,064.96	
Less United States Treasury Tax Notes, and interest.....	<u>753,600.00</u>	
		819,464.96
Sundry accruals		<u>22,508.78</u>
		\$ 2,514,521.67

Jewel Employees Surety Deposits:

Principal and interest at the rate of 2% per annum guaranteed by Jewel Tea Co., Inc. (Jewel employees trust fund assets, per contra)	228,453.62
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Reserves:

Contingencies and inventory valuation.....	\$ 650,000.00	
Automobile accident and other self-insured losses.....	<u>250,000.00</u>	
		900,000.00

Capital Stock and Surplus:

Preferred stock, 4¼% cumulative, \$100.00 par value, redeemable, 1,000 shares per annum beginning in 1943 at maximum price of \$110.00 per share; entitled to regular redemption prices at voluntary liquidation and \$100.00 per share at involuntary liquidation, all plus accrued dividends:	
Authorized and issued, 50,000 shares.....	\$ 5,000,000.00

Common stock, no par value:

Authorized	600,000 shares	
Unissued	<u>40,000 shares</u>	
Issued	<u>560,000 shares</u>	\$5,765,035.01
Transfer to capital as explained in earned surplus account..	<u>5,038.26</u>	
		<u>5,770,073.27</u>
		\$10,770,073.27

Earned surplus (including \$16,631.09 arising from sale and distribution of common stock to employees during the year 1942. According to the preferred stock provisions of the certificate of incorporation, \$1,439,221.66 is not available for cash dividends on common stock).....	<u>2,494,386.88</u>	
		\$13,264,460.15

Less stock in treasury at cost: 2,684 shares of common stock acquired for sale and distribution to employees and 1,075 shares of preferred stock acquired for retirement and cancellation.....	<u>174,948.30</u>	
		13,089,511.85

Contingent Liabilities:

Under contracts for coffee not shipped at January 2, 1943.	<u>\$ 937,744.02</u>
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\$16,732,487.14

JEWEL TEA CO., INC.

INCOME ACCOUNT

For the Fifty-two Weeks Ended January 2, 1943

Net Sales		\$53,257,811.33
Deduct:		
Cost of sales—including raw materials, labor, supplies, operating, selling and administrative expenses, etc.....	\$48,021,064.78	
Depreciation—of buildings, machinery, furniture and fixtures, and automobiles	574,686.76	
Taxes:		
Federal income	\$ 876,126.93	
Federal excess profits.....	257,645.44	
	<u>\$1,133,772.37</u>	
Less post-war refund of excess profits tax.....	25,764.54	
Net federal income and excess profits taxes.....	<u>\$1,108,007.83</u>	
All other taxes—state income, franchise, capital stock, excise, federal old age and survivors' benefit, federal and state unemployment, sales, use, occupational, gasoline, motor carrier, occupancy, personal property and real estate taxes, and automobile and business licenses..	<u>1,419,588.29</u>	
		2,527,596.12
Provision for doubtful accounts		164,147.65
Rents		601,854.53
Maintenance and repairs.....		295,156.93
Provision for contribution to Jewel Retirement Estates.....		99,531.60
Reserves:		
Contingencies and inventory valuation.....		52,486.75
The reserve of \$197,513.25 for alterations, improvement, development and advertising provided from earnings in prior years has been transferred to the reserve for contingencies and inventory valuation. (See president's message)		
		<u>52,336,525.12</u>
		\$ 921,286.21
Add:		
Other income:		
Interest on securities	\$ 82,728.48	
Other miscellaneous income	<u>356,943.36</u>	
		439,671.84
		<u>\$ 1,360,958.05</u>
Deduct:		
Provision to reduce marketable securities to the basis of cost or market, whichever is lower, plus losses (net) on sales of securities.....		<u>12,309.80</u>
Net Earnings for the Year (\$27.57 per share on preferred stock and \$2.03 per share on common stock after deducting preferred stock dividends)....		<u><u>\$ 1,348,648.25</u></u>

The above income account and the accompanying balance sheet and earned surplus account of Jewel Tea Co., Inc., are in accordance with and correctly prepared from the books of the Company, and exhibit, in my opinion, a true statement of the financial position of the Company on January 2, 1943, and the results of its operations for the year then ended.

Barrington, Illinois
February 5, 1943

Al Hunt
Controller

JEWEL TEA CO., INC.

EARNED SURPLUS ACCOUNT

For the Fifty-two Weeks Ended January 2, 1943

Earned Surplus, January 3, 1942		\$2,394,902.91
Add:		
Net earnings for the year.....		1,348,648.25
Adjustments arising from sale and distribution of common stock to employees		16,631.09
Unexpended balance of fund for expenses of issuing preferred stock—appropriated in 1941.....		5,038.26
		<u>\$3,765,220.51</u>
Deduct:		
Dividends on 4¼% cumulative preferred stock from November 1, 1941, to January 31, 1943, inclusive (\$5.3125 per share).....	\$ 263,413.37	
Dividends on common stock (\$1.80 per share).....	1,002,382.00	
Transfer to common stock account of unexpended balance of fund for expenses of issuing preferred stock (see above).....	<u>5,038.26</u>	
		<u>1,270,833.63</u>
Earned Surplus, January 2, 1943 (including \$16,631.09 arising from sale and distribution of common stock to employees during the year 1942. According to the preferred stock provisions of the certificate of incorporation, \$1,439,221.66 is not available for cash dividends on common stock).....		<u>\$2,494,386.88</u>

Auditor's Report

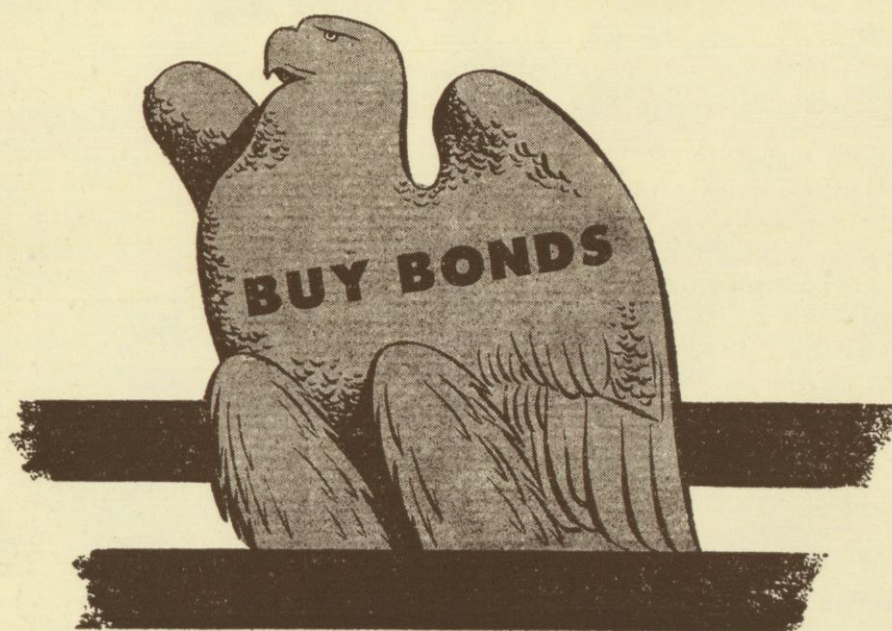
TO THE BOARD OF DIRECTORS, JEWEL TEA CO., INC.:

We have examined the balance sheet of Jewel Tea Co., Inc. as of January 2, 1943, and the statements of income and surplus for the fifty-two weeks then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of Jewel Tea Co., Inc. at January 2, 1943, and the results of its operations for the fifty-two weeks, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois
February 6, 1943

TOUCHE, NIVEN & CO.
Certified Public Accountants



FOR VICTORY